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FEDERAL MARITIME COMMISSION

PUBLIC VERSION
FMC SLOW-STEAMING N.O.I.
April 5, 2011

FMC's Notice of Inquiry: Impact of Slow Steaming on U.S. Ocean Liner Commerce

Identifying Information (Please provide the information requested below with your NOI response.)

Name of Respondent: *Robert F. Sappio*

Respondent's Title/Position: *Senior Vice President for Pan-American Trades*

Contact Information: *1-602-586-4682
robert_sappio@apl.com*

Name and Address of Company or Other Entity: *APL Co. Pte Ltd and American President Lines, Ltd.
(together "APL")*

Type of Company or Other Entity: *Vessel-Operating Ocean Carrier (VOCC)*

Questions Directed to Ocean Liner Carriers

1. What does your company see as the advantages and disadvantages of slow steaming?

APL Response:

Confidential Materials Excluded

2. What proportion of the ships your company operates in the U.S. trades slow steam? What proportion slow steam outbound from the United States? What proportion slow steam inbound to the United States? Please break this information down by trade lane.

APL Response:

APL slow steams 4 out of 5 of our TPWC operated strings, namely PS1, PS2, SAX, and PCE. We do not slow steam the PS5 loop.

There is also some degree of slow steaming in TPEC, where the APX went from 12 to 13 ships, NYX went from 8 to 9 ships, and SZX from 8 to 9 ships. With one more ship in the EC loops, we also managed to increase our port



coverage, and also increased the number of moves in some ports.

Our Latin American (LTAM) coverage comes from the PS2, APX and NYX. The PS2 is slow steaming to Mexico, and APX and NYX (which are mixed loops within the TNWA) also slow steams to some degree.

3. Do you have plans to increase or decrease slow steaming during 2011 and/or the years that follow?

APL Response:

No deployment changes are planned. We will continue to investigate and slow steam ships where it makes economic sense going forward.

4. What factors help your company decide to slow steam any given service string? What factors cause your company to decide whether to slow steam in one direction only?

APL Response:

We slow steam on round-trip basis. Slow steaming in both head and back haul directions maximizes the FO consumption saving.

Factors are bunker consumption rate of the ships, length of voyage, availability of assets, charter parties, and engineering considerations.

5. In the past year, by how much (i.e., absolute amount and as a percent of the total) has your company reduced its bunker consumption, bunker fuel expenses, and carbon emissions as a result of slow steaming ships in U.S. ocean liner services?

APL Response:

Confidential Materials Excluded

6. Do you make this information on fuel, cost, and emissions savings available and transparent to your customers? If not, do you have plans to, and what is your goal date? If not, why not?

APL Response:

We generally do not publish information on savings or costs specifically tied to bunkers. We do provide comparative information, reflecting changes in fuel costs, to help educate our customers regarding fuel costs.

We do provide carbon footprinting figures to customers upon request and make our footprint available to them through the Clean Cargo Working Group.



7. Do you offer shippers, over the same trade lane, different transit times by reason of slow steaming vs. normal steaming?

APL Response:

Yes, Customers do have choices. Not every port pair has a choice between ocean transit speeds, but door-to-door delivery speeds depend on many different factors. For example, differences in service can depend on many factors, including intermodal connections. Improved service reliability allows for more reliable intermodal connections.

8. Have you passed cost savings along to shippers through adjustments to any bunker surcharge formulas, or by lowering rates? If not, do you have plans to, and what is your goal date? If not, why not?

APL Response:

Contracts reflect base ports plus bunker formula – the changes in costs are reflected in the combination of these elements. Moreover the bunker surcharge formula applied in most of APL's transpacific contracts reflects changes in the market price of bunkers. The formula adjusts upwards and downwards with market prices. Therefore our customers do benefit from savings when the bunker formula adjusts downwards.

Moreover it is important to emphasize that rates in the market depend on a number of variables and factors, not just fuel costs.

Savings in fuel costs obtained through slow steaming are partially offset by increased costs associated with operating more ships, increased maintenance costs and other expenses. It is difficult to tease apart the impact of each cost component on over-all rates negotiated with individual customers.

9. Are there any costs incurred by the ships your company is slow steaming that would not accrue if they were operating at normal service speed and, if so, what are these costs and how significant are they?

APL Response:

Confidential Materials Excluded

10. What factors constrain your company's ability to slow steam more services or to further slow down ships that are already slow steaming (i.e., super-slow steaming)?

APL Response:

Confidential Materials Excluded

11. How many vessels do you add to service loops that begin slow steaming for part or all of the loop? Are there instances where vessels are not added?



APL Response:

Confidential Materials Excluded

12. Is your company adding new vessels to your fleet to accommodate slow steaming?

APL Response:

We are ordering sufficient ships to ensure future growth, including the additional ships needed to operate services at slower speeds. These ships will be designed to operate most efficiently at slower speeds compared to existing tonnage.

13. Are new ship designs incorporating hull and propulsion engine innovations to better accommodate slow steaming?

APL Response:

Yes. Our newbuildings are designed with slow steaming in mind, both from engine and ship design stand-point.

14. How has slow steaming impacted your company's on time performance of sailing schedules?

APL Response:

APL has the highest service reliability in the industry. 95% of APL ships arrive at USWC ports within 4 hours of base estimated time of arrival (ETA).

15. Are some shipper accounts more affected by slow steaming than others? If so, please explain. What measures has your company taken to try to mitigate any adverse impact of slow steaming on specific shipper accounts?

APL Response:

High value, garment, and fresh (non-frozen) seasonal reefer cargo prefer faster transit times. The impact on fresh reefer cargo can be substantially mitigated with controlled or regulated atmosphere technologies. APL's improved service reliability allows more efficient and predictable intermodal connections, which improves service quality for intermodal customers.

It should be noted that average dwell time for containers on the West Coast is four days – this dwell time has not decreased with the advent of slow steaming. This suggests that slow steaming has not adversely affected customer supply chains.

16. To what extent has slow steaming affected your company's ability to maintain or expand capacity in the U.S. trades and/or its ability to maintain adequate availability of containers at appropriate inland locations?



APL Response:

Slow steaming was a crucial cost-savings measure through the 2008-2009 economic crisis. However this initiative had very little adverse service impact on our customers. Moreover slow steaming had a negligible impact on the availability of equipment at inland locations.

17. Do you believe slow steaming is sustainable over the long-run? Please explain why or why not.

APL Response:

Yes. Cost savings, environmental benefits and service reliability improvements are permanent benefits of slow steaming. See response to question No. 1 above.

18. If your company participates in one or more vessel sharing arrangements ("VSAs"), describe whether and to what extent VSAs are positively or negatively impacted by slow steaming.

APL Response:

The addition of ships to slow steam VSAs in some cases also create sufficient contingency in the service profiles to allow for broader port coverage. In many cases this means increased customer choice and more competition between carriers between a given port pair.

Questions Directed to All Interested Parties

1. What are the major benefits and costs associated with slow steaming?

APL Response:

Cost savings, service reliability, and environmental benefits. See response to question no. 1 above.

2. To what extent has the slow steaming of services in the U.S. ocean liner trades reduced greenhouse gas emissions?

APL Response:

We are in the process of quantifying the reduction in greenhouse gases, but have not completed this study. Given the reduction in consumption of fuel, however, we expect a corresponding reduction in greenhouse gas emissions.

3. Discuss the likely long-term prevalence of slow steaming and its potential impacts on the economy and/or the environment.

APL Response:



We believe slow steaming is a permanent feature of ocean transportation. Our customers want service reliability and predictability, and they want their service providers to provide cost effective, efficient, and environmentally responsible services. Until there are significant changes in the technology used in vessel propulsion systems, slow steaming is the most effective operational way of achieving these objectives.

4. How important is slow steaming in the overall effort to reduce emissions of greenhouse gases and other air pollutants arising from ocean liner operations?

APL Response:

Slow steaming is a critical component of APL's environmental impact mitigation strategy. This operational initiative offers the most cost effective way to achieve substantial and long term reductions in greenhouse gas and criteria pollutant emissions.

5. What data sources are available to measure the economic and environmental impacts of slow steaming?

APL Response:

We are currently conducting an inventory of our climate change-related mitigation initiatives. We believe we will be able to show that greenhouse gas emissions have reduced in proportion to the reduction in bunker consumption on our vessels as a result of slow steaming.